

103

UNITED STATES-JAPAN TRADE RELATIONS

Y 4. W 36: 103-82

United States-Japan Trade Relations...

HEARING
BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS

SECOND SESSION

TESTIMONY OF HON. MICHAEL KANTOR, UNITED STATES TRADE
REPRESENTATIVE

MARCH 15, 1994

Serial 103-82

Printed for the use of the Committee on Ways and Means



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HEARING ON UNITED STATES-JAPAN TRADE RELATIONS

TUESDAY, MARCH 15, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 1100, Longworth House Office Building, Sam Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
THURSDAY, MARCH 3, 1994

SUBCOMMITTEE ON TRADE #27
COMMITTEE ON WAYS AND MEANS
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THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN,
SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A PUBLIC HEARING
ON UNITED STATES-JAPAN TRADE RELATIONS

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a public hearing on United States-Japan trade relations to update Subcommittee Members on the Administration's action and thinking on U.S.-Japan trade issues. The hearing will be held on Tuesday, March 15, 1994, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

The Administration's witness for the hearing will be the U.S. Trade Representative, Ambassador Michael Kantor, who will address a variety of U.S.-Japan trade issues, including the recent negotiations held under the auspices of the U.S.-Japan Framework Agreement. President Clinton met with Japanese Prime Minister Morihiro Hosokawa in Washington on February 11, at which time agreements on automotive trade, government procurement of telecommunications and medical equipment, and insurance were to have been concluded. No agreements were reached however, because of a fundamental disagreement over how to measure progress toward the goal of opening the Japanese market.

The Subcommittee expects that Ambassador Kantor will also comment on the Office of the U.S. Trade Representative's (USTR) February 15 finding that Japan has violated the 1989 Third Party Radio and Cellular Agreement by failing to provide the U.S. company, Motorola, with access to the Japanese cellular telephone and network equipment market. Because such a finding requires action under U.S. trade law, USTR also announced on February 15 that it would publish a proposed retaliation list by March 17.

Finally, the Subcommittee anticipates that Ambassador Kantor may address other problem areas in the U.S.-Japan trade relationship, such as implementation of the 1991 U.S.-Japan Semiconductor Agreement. At the end of December 1993, USTR announced that the foreign share of the Japanese semiconductor market had declined for three consecutive quarters following the 20.2-percent share achieved in the fourth quarter of 1992. The foreign share was calculated at 18.1 percent for the third quarter of 1993, down from the 19.2 percent for the second quarter, and 19.6 percent for the first quarter. As provided under the 1991 U.S.-Japan Semiconductor Agreement, the United States has called for emergency consultations to correct this implementation problem.

* * * * *

Chairman GIBBONS. Good morning. I think the size of this audience this morning signifies the importance of these hearings on the United States-Japanese relationship.

I want to welcome you, Ambassador Kantor.

Ambassador KANTOR. Thank you, sir.

Chairman GIBBONS. And your associate, Deputy USTR Barshefsky, our chief negotiator on this matter, to this hearing this morning.

Let me say on a personal note that I am also involved in the markup on health care, and Mr. Matsui has graciously consented to chair this hearing in my absence.

The United States-Japan relationship is probably the most important of our bilateral trade relationships and is therefore of tremendous interest to Members.

We are interested largely because the Japanese relationship both with the United States and with the rest of the world is out of balance. The Japanese are running a worldwide surplus of \$130 to \$140 billion.

This imbalance is not a new phenomenon. The Japanese have been running a trade surplus for some time, and it is not only the size of the surplus, but its duration as well that concerns members as we look at the world trading system.

Japan's longstanding trade surplus with the United States and with the rest of the world indicates that the Japanese market is not nearly as open to other people or to the United States as are the rest of the markets of the world.

Japan's trade surplus just cannot continue to exist. Something must be done to eliminate, or at least reduce, this imbalance. The continuation of the Japanese trade surplus will have serious consequences for global and monetary systems. It was with these concerns in mind that the Subcommittee on Trade called his hearing today. Mr. Ambassador, let me begin by commending you, Ms. Barshefsky, and others within the administration, who had a recent agreement with the Japanese on access for U.S. cellular telephone producers to the Japanese market.

As I recall, the negotiations on cellular telephone trade have gone on for years. It seems we have finally, hopefully, reached a satisfactory conclusion.

There have been many agreements that did not prove successful, but it looks to me that this agreement, because of its detailed terms and because of the acceptance it has enjoyed on both sides of the ocean, will succeed in achieving the desired result.

Opening the Japanese market to true competition from United States and other foreign producers will require many more such agreements.

I have many other observations I would like to make, but perhaps I ought now to yield to any other members on this panel for their views before we go to the Ambassador.

Would any of you like to make any observations now?

[No response.]

Chairman GIBBONS. All right, fine.

Let us go to you, Mr. Ambassador.

STATEMENT OF HON. MICHAEL KANTOR, UNITED STATES
TRADE REPRESENTATIVE

Ambassador KANTOR. Thank you, Mr. Chairman and members of the subcommittee.

I am pleased to be here again this morning to talk about the United States-Japan trade relationship, and, of course, this Administration agrees with you that the United States-Japan economic relationship is the most important bilateral relationship in the world.

Let me first say from the outset that our strategic and political relationship with Japan remains strong. Prime Minister Hosokawa and President Clinton made that quite clear at their February 11 summit. They also made it clear that in a mature relationship two partners can disagree on trade or economic issues and yet maintain a very strong strategic and political relationship, and that is exactly the situation that we have today with Japan.

The Japanese relationship has, along with NAFTA, the Uruguay round, been one of the most important priorities, highest priorities, that we have had in this Administration.

Our formula in addressing this has been simple and consistent. The United States is committed to achieving greater economic growth at home and abroad through opening foreign markets to trade and investment, and, of course, Japan represents one of the greatest barriers to reaching that goal, not the only one, Mr. Chairman, but the greatest.

I would like to, with your permission, submit my whole statement for the record and merely summarize some of the points in it, if the subcommittee or committee agrees, Mr. Chairman, and then, of course, allow you and the members of the committee to ask as many questions as you wish on this or obviously any other subject.

Chairman GIBBONS. All right. We will receive your entire written statement.

Ambassador KANTOR. On February 11, the President underscored the importance of Japan's trade relationship with this country. He noted the world's second largest market, Japan, is a vital potential partner for us in our efforts to boost global growth.

But we must question whether Japan is prepared to assume its full share of responsibility, given past history and given present circumstances.

As the President stated very clearly, the Japanese economy, in almost every sector where the Japanese export large amounts of goods, is more closed than any other developed nation in the world.

Unfortunately during our negotiations of the Framework agreement, which was reached in July of 1993 in Tokyo in connection with the G-7 meetings, we were unable to, one, reach agreement on four sectors that we had determined we would meet by February 11—that is, Government procurement of telecommunications and medical equipment, as well as the insurance and auto and auto parts sectors. We also hoped to reach or have the Japanese adopt policies in the macroeconomic area which would stimulate their economy in order to build global growth.

The adopted package by the Japanese, frankly, Mr. Chairman, is not what we had hoped it would be. It was a 1-year tax rebate, and

the infrastructure investment is not as much as we would have though necessary in order to stimulate the economy.

So on both counts, the Framework agreement, the obligation of the Japanese Government under the Framework agreement, was not adhered to.

I would be remiss, though, in not reporting that our global agreements on population and other matters not only were adhered to but were successful under the leadership of the State Department, and so part of the agreement did work; the other two parts on the economic matters did not, and I think that illustrates frankly just where our problems are. When they are global agreements not involving economic matters, we are, of course, cooperating quite closely with the Japanese and making progress, whether they be strategic or political. In the economic matters, we are not making that kind of progress.

I thought what I might do is just give you a couple of observations about the Motorola agreement and about closed markets and then just, as I have, submit my statement for the record.

The agreement on cellular telephones that we reached with the Japanese Government on Friday night and Saturday morning is a breakthrough. It is a breakthrough for two reasons.

One, it allows one of our most competitive industries and one of the fastest growing industries, telecommunications, to have potentially free and unfettered access to the entire Japanese market.

I would note parenthetically, Mr. Chairman, that the company involved, Motorola, with a Japanese joint-venture partner, has had unfettered access since the late 1980's to 40 percent of the Japanese market and have captured 50 percent of that market because they are among the most competitive companies in the world, representing a telecommunications industry in the United States, which is the most competitive industry in the world.

However, you know the history. We had two agreements and a letter of agreement which were not adhered to on opening up the Tokyo-Nagoya market, representing about 60 million people, and that was having a significant adverse effect upon our ability to penetrate that market. In fact, the effect was dramatic. Whereas there were over 1 million subscribers to cellular telephones in the Tokyo-Nagoya market, Motorola only had 12,000 subscribers, 12,170 to be exact, at the end of 1993, whereas they had outside Tokyo-Nagoya 338,000 subscribers and almost exactly 50 percent of the market, a dramatic difference given the—and that is the result of the discrimination practice on the part of the Japanese Government and its agent, IDO, with regard to Motorola.

But we have reached an agreement, and the second part that is important is that it is an results-oriented agreement with quantitative indicators, Mr. Chairman, which will ensure that Motorola has a fair chance to compete. No market shares, no guaranteed sales of numbers of phones or subscribers, but quantitative indicators as to base stations, switching systems, transferring of spectrum—that is, capacity—to Motorola to allow them to compete fairly, to allow them to have comparable access, as was promised for years to Motorola, as you correctly noted, over a 10-year period of time, and now it is up to Motorola and DSC of Plano, Texas, to compete.

And that is exactly what we ask for: No more, no less, the right to compete fairly as Japanese are allowed to compete fairly in the U.S. market—comparable access, comparability of opportunity, mutuality of obligation, nothing more, nothing less.

We have been somewhat victimized in this country with the characterization that we want something called “managed trade”. Frankly, Mr. Chairman, the Japanese have practiced managed trade for years.

We are trying to work with the Congress to unmanage trade in Japan. It would be good for the United States, good for all foreign competitive products, and certainly good for Japanese consumers as well.

In terms of the Framework agreement, the status today is that the Japanese have indicated the, “ball” is in their court. We have seen public reports that they will have some sort of, “market opening package,” by the end of this month.

We have not been told officially, one, whether there will be a package; two, what it will contain; three, or what it will cover. We, of course, look forward to the time that the Japanese are ready to discuss in full and fair negotiations their obligations under the Framework agreement.

This Administration is committed to this approach. After looking at over 30 agreements that we have with the Japanese, many of which are not working well or at all, we have come to the conclusion that only results-oriented agreements are going to make a difference and open Japanese markets.

We are not the only folks who have reached that conclusion, Mr. Chairman. Frankly, the business community in this country, through a report issued to this Administration in February 1993, reached that conclusion over 13 months ago.

And second, it is clear that Prime Minister Hosokawa and others have made it clear that Japan must open its market if they are going to be successful in growing their own economy and also help to stimulate global growth.

Let me end by indicating that it is this Administration’s considered opinion that like the United States and the European Union, Japan must take its full share of responsibility in promoting global economic growth.

Japan has not done so yet, either in these Framework talks and other matters or even in the Uruguay round. We will continue to work with Japan as our partner and ally in order to be able to work together to share the burdens and the opportunities of a new global economy. But unless and until Japan is prepared to take their share of responsibility, we are not going to resolve these problems.

Thank you, sir.

[The statement of Ambassador Kantor follows:]

Testimony of Ambassador Michael Kantor
Status of U.S. - Japan Trade Relations
Subcommittee on Trade
Committee on Ways and Means

March 15, 1994

Mr. Chairman, I am pleased to be here this morning to discuss with you the status of the U.S. - Japan trade relationship. The bilateral economic relationship with Japan is the most important in the world for the United States and also for the world economy and for the world trading system. That is why this relationship, together with NAFTA and completion of the Uruguay Round, has ranked as a top trade priority from the outset of this Administration. In all of these areas, our formula has been simple and consistent. The U.S. is committed to achieving greater economic growth at home and abroad through opening foreign markets to trade and investment.

The President himself underscored the importance of Japan's trade relationship with the United States and the world during the visit to Washington of Prime Minister Hosokawa last month. He noted that as the world's second largest market, Japan is a vital potential partner in our efforts to boost global growth. As the President also stated, Japan remains less open to imports than does any other member of the G-7 group of industrialized countries.

The President made these remarks during a press conference with Prime Minister Hosokawa on February 11. The comments of the two leaders focussed primarily on the inability of U.S. and Japanese negotiators to resolve a set of negotiations on four sectors which had been taking place under the U.S. - Japan Framework Agreement over the previous six months. I was personally engaged in the effort to bring these negotiations to a successful conclusion, together with Japanese Foreign Minister Hata, until 4:30 am on the day of the meeting between President Clinton and Prime Minister Hosokawa. The Administration decided against the alternative of concluding last minute agreements that would have glossed over our differences with Japan on the need for Japan to take credible action to address its global trade imbalances. It was a serious decision, but as the President said, the issues between Japan and the United States are so important for our own nations and for the rest of the world that it was better to have reached no agreements than to have reached empty and ineffective agreements.

At this juncture, it is important that we review the dimensions of Japan's economic asymmetries; the cost of these asymmetries to the U.S. and to all trading nations; and how we are trying to deal with these issues under the Framework. I would also like to take this opportunity to discuss the status of some specific sectoral issues with you, notably the determination that Japan

had not complied with the 1989 Third Party Radio and Cellular Arrangement, and the resolution of this issue.

This Administration has great respect for the tremendous advances in the Japanese economy since the end of the Second World War. American firms have gained much from the example of Japanese manufacturing techniques. We must recognize, however, that the Japanese "economic miracle" was not achieved without cost. In recent years, these costs have been borne in part by Japan's trading partners, who faced rising deficits and formidable Japanese market access barriers; and in part by Japan's consumers population, who tolerated enormous price differentials in the name of providing a secure domestic market from which to boost the overseas competitiveness of Japan's export industries. Japan's trading partners, and many Japanese, believe that it is no longer appropriate for Japan to impose these costs at home and abroad now that the Japanese economy is the world's second largest.

In the last two or three years of weak world growth, Japan's large current account surpluses have served to remove stimulus from the economies of some of Japan's trading partners, including the United States. Last year, this surplus reached 131 billion dollars, or about 3 percent of Japan's gross domestic product. This surplus is a major asymmetry in the world economy today. It serves as a drag on global demand and slows the pace of economic expansion and job growth in other nations. It has been estimated that a decline in this surplus to its still-high level of about 2 percent of Japan's GDP would mean an additional 50 billion dollars in demand for goods and services from Japan's trading partners. The U.S. economy could realize up to 15 billion dollars of exports from such a shift; that could represent as many as 300,000 American jobs.

I am also deeply concerned by another measure of the burden Japan's economic imbalances place on the world economy; Japan's persistent lack of receptivity to the import of manufactured goods. Expressed as a share of gross domestic product, Japan's manufactured imports stood at only three percent in 1992, a figure less than half that of the United States and only about a third to a sixth of that of the remaining members of the G-7. Put another way, Japan's consumption of imported manufactures as share of total manufactures in the economy is about six percent. In the U.S. and Germany, this figure is about 15 percent.

Japan's lack of receptivity to foreign direct investment also sharply affects its imports of foreign manufacturers. In 1991, Japan's share of the total world stock of inward direct investment was 0.7 percent, as compared to the 22 percent hosted by the U.S. and the almost 40 percent based in the European Community. The huge impact of this extraordinary imbalance on trade flows is apparent when looking at the relationship between

trade and investment in the context of Japanese investment in the U.S. Approximately 75 percent of Japanese imports to the U.S. are bought by the U.S. affiliates of Japanese companies. The vast discrepancy in investment stock in Japan limits U.S. and foreign firms use of this channel to boost exports to Japan.

Among the G-7 nations, indeed, even when compared to some newly industrialized countries, Japan also ranks consistently low in measures of intra-industry trade. Intra-industry trade refers to the propensity of most industrialized economies to import products similar to the products they export. One measure of intra-industry trade based on 1990 data calculated that 58 percent of Japan's trade were exports and imports within the same product category. The comparable figure for the U.S. was 83 percent, those of other members of the G-7 ranged up to 79 percent. Japan's lower level of intra-industry trade is a factor consistent with other evidence pointing to relatively closed Japanese markets.

Low foreign market share in some key high technology sectors may be a reflection of this problem. For example, the foreign share of Japan's market for telecommunications equipment in 1991 was five percent. In the U.S., this figure was 28 percent. Among the other members of the G-7, this number ranges from 11 to 38 percent. In semiconductors, the foreign share of Japan's market was 18.1 percent in the third quarter of 1993. In the United States, foreign share is about 30 percent. In the EC it is about 64 percent. Such low foreign market share levels may be an indicator of trade barriers in place around specific industries; they are a sign that Japanese manufacturers enjoy a relatively safe home market, and that Japanese consumers are denied the price benefits to be found in a market open to products from foreign producers.

Japan's sectoral barriers against foreign products and services raise problems for the U.S. quite apart from any concerns over our bilateral trade deficit. They affect our domestic economy by restricting the composition of our trade with Japan; by limiting the sectors to which we can and cannot export. These practices deny the U.S. and other foreign countries the benefits to be expected under an open global trading system. Output and jobs in our most competitive sectors -- high technology and others -- are lower than they would otherwise be because of Japanese practices.

This is obviously unacceptable to this Administration, as it should be to any Administration, which places a very strong emphasis on building competitiveness. Such a policy cannot fully succeed if the Japanese market; our largest potential export market in many important sectors, is selectively closed to our exports. In fact, even if our bilateral trade numbers with Japan were reversed, that is, if we were running a major trade surplus with Japan, we would still have to address these sector specific

barriers in the Japanese economy in order to enhance the quality of our exports and export related jobs.

This Administration recognized from the outset that both of these economic imbalances, Japan's multilateral current account surplus and its sectoral and structural barriers to imports, required an immediate response. Our drive to address both issues was reflected in the U.S. - Japan Framework Agreement, agreed to by President Clinton and then Prime Minister Miyazawa in Tokyo in July 1993.

Under the Framework, on the macroeconomic side, the United States promised to reduce its budget deficits and improve its competitiveness. We pledged to keep our markets open. It is beyond argument that the United States has kept these commitments, and the result has been strong growth and jobs.

For its part, Japan committed to pursue objectives promoting sustained demand-led growth and increased market access for competitive foreign goods leading to a highly significant decrease in its current account surplus over the medium term, and to promote a significant increase in global imports of goods and services. Given Japan's present policies, it remains to be seen whether it will realize the "highly significant decrease" in the current account surplus as called for in the Framework. The macroeconomic dialogue is being conducted largely in the context of ongoing G-7 discussions, under the auspices of my colleague Secretary Bentsen.

The Office of the USTR has been primarily concerned with the sectoral and structural aspects of the Framework. In particular, as I noted earlier, from September 1993 until the early morning of February 11, 1994, USTR and other agencies, particularly the Department of Commerce, were engaged in an intensive series of negotiations to reach new agreements in four sectors designated as priorities under the Framework. These sectors are Japanese Government procurement of telecommunications and medical technology; insurance; and automobiles and auto parts. In parallel to these talks, discussions in other areas of the Framework, such as deregulation and anti-competitive practices, foreign investment in Japan and concerns over Japan's inadequate protection of intellectual property, were also under way on a less intensive basis with a deadline for completion in July.

These four priority sectors are each very different, and I would be reluctant to oversimplify the degree to which all four negotiations tracked each other. In general, however, what we sought from the Japanese in each sector was procedural reform that would lead to significant increases in access and sales in Japan of competitive foreign goods and services in these sectors: "tangible progress" in the language of the Framework. In plain language, we wanted results. Also as we had agreed to under the

Framework, we sought objective criteria, both quantitative and qualitative, as a means of measuring the success of the agreements. Finally, the agreements reached under the Framework would be on a most favored nation basis; the dividends of increasing openness would be available all of Japan's trading partners who are competitive vendors in these sectors.

Throughout the intensive negotiations, while some limited progress was made on procedures and process, Japanese negotiators failed to acknowledge in any meaningful way these key principles that our heads of state had agreed to last July -- results orientation, that is, the need for tangible progress -- and measurement through the use of objective criteria.

The Japanese negotiating position on these issues was confined essentially to one statement: "no numerical targets". In uttering this statement again and again, attempted to label the U.S. position as a call for managed trade. Nothing can be further from the truth. First, our goal, and here we are in agreement with Prime Minister Hosokawa and many voices in Japan, is to unmanage the most managed economy in the industrialized world. Second, under our Framework talks, we never sought numerical targets as the Japanese were suggesting. We never sought a single, fixed market share goal to be achieved by a given deadline. Rather we were looking for a set of qualitative and quantitative criteria, that, in the aggregate, would permit us to assess implementation of an agreement. The Japanese approach, was, in essence, to deny that the term "quantitative criteria" had any bearing on the Framework talks.

The Framework established the February 11 meeting between the President and Prime Minister Hosokawa as the date for reaching these four new agreements. In the weeks leading up to this deadline, we attempted to engage senior Japanese political leaders in an effort to convince the Japanese to acknowledge the key Framework principles in a manner that would enable us to bring the negotiations to a satisfactory conclusion. Secretary Bentsen visited Tokyo on January 23 enroute home from China. He conveyed a desire to see the talks conclude successfully, but also delivered a message of U.S. resolve. Secretary Bentsen noted that to be successful, the agreements reached under the Framework had to be credible, and to be credible, they had to yield real change in the Japanese market.

I visited Tokyo during the first week in February, where I reiterated this message with the Japanese Prime Minister, members of his cabinet, and senior political leaders. With hours left until the Clinton - Hosokawa meeting, I continued to work with Foreign Minister Hata in an effort to get the Government of Japan to embody in the agreements what they had already agreed to in the Framework. It was the inability of the Japanese Government, at any level, to take this step, which led to the impasse in the

talks announced by the President.

On March 12, I announced that the United States and Japan had reached a results-oriented agreement that will provide U.S. cellular telephone systems comparable market access to Japan. As a result of this agreement, I am suspending further action under my February 15 determination under section 1377 of the Omnibus Trade and Competitiveness Act of 1988 that Japan had not complied with the 1989 agreement to open its cellular telephone market to U.S. manufacturers of cellular telephone equipment. The determination will be terminated in 30 days upon completion of a detailed deployment plan for the system.

The announcement was the result of the determination on February 15 concerning the failure of the Japanese government to honor the cellular telephone agreement and had no direct relationship to the Clinton - Hosokawa meeting of the previous week; in fact, we had decided on the date of the announcement as early as December. But I think that the circumstances surrounding the determination, and the agreement that was reached last weekend, illustrate some of the sectoral barriers we are trying to address in the Framework, and support the Administration's approach to our trade agenda with Japan.

The determination resulted from a clear-cut failure of Japan to live up to a commitment to grant U.S. industry "comparable access" to the Japanese market under the Third Party Radio and Cellular Agreement. In fact, our efforts to address market access barriers in this sector spanned almost a decade and included two trade agreements and a commercial understanding. While "comparable access" was pledged, the Japanese Government consistently supported actions which impeded such progress. Most notable was the forced selection of a Japanese firm to develop a system in the Tokyo - Nagoya area of Japan, using Motorola's technology, when the Japanese firm in question already had a major investment in the construction and subscription of a competing Japanese system.

While the Japanese firm completed construction of the competing system, construction of the system using Motorola technology languished, with the Japanese partner refusing even to take delivery of necessary equipment for two years. At the time of the determination, this behavior had led to the virtual exclusion of U.S. industry from the Tokyo - Nagoya market, a market equivalent in size to that of the Washington - Boston corridor in the U.S. With only about 40 percent of the promised area covered, the Motorola based system had been able to sign up only about 12,000 subscribers, as against 1.2 million for the fully completed competing systems in the same region, including 308,000 for the competing system built by Motorola's partner in this ill fated shotgun marriage.

Following the determination, in accordance with the 1377 process, we began to develop a list of Japanese products on which to levy sanctions equivalent to the lost sales to U.S. industry as a result of the market barriers. In this case, these lost sales were in the hundreds of millions of dollars. I had announced that we would publish this draft list for public comment by March 17. Sanctions would have been imposed following this comment period had the situation not been otherwise resolved.

We encouraged the companies involved to seek a resolution that would adequately redress the problem, and we engaged the Government of Japan in order to ensure that the responsible ministries would monitor and oversee the construction of the system, and ensure compliance with the quarterly schedule of actions. Through the extremely hard work of all parties, including an extraordinary effort by Ambassador Mondale in Tokyo and Ambassador Barshefsky in Washington, a satisfactory solution was reached.

Our experiences in this sector reflect broadly on the frustrations we have encountered in our past bilateral trade experiences with Japan and our determination to pursue results oriented agreements, subject to objective evaluation, under the Framework. After ten years and two trade agreements and a major commercial understanding in the same area of the telecommunications sector, we were still compelled to initiate trade action in this case. Key aspects of the 1989 agreement lent themselves to delay and ambiguity in their implementation by the Government of Japan. Use of criteria, such as those proposed within the Framework, might well have averted this latest episode of tension in our trade relationship with Japan.

Accordingly, the March 12 U.S. - Japan Arrangement on Cellular Telephone Systems is a results-oriented agreement which links comparable access to the Japanese market to a specific, verifiable schedule of quarterly commitments. It specifies such terms as:

- A plan containing a schedule of quarterly commitments on the numbers of base stations and voice channels and the ratios of population coverage.
- A deployment plan to be completed within 30 days setting out the precise geographic location of each base station in the Tokyo-Nagoya area.

These commitments will yield 159 new base stations, containing 9900 additional voice channels. These commitments will ensure coverage of 95 percent of the key Tokyo-Nagoya market by December 1995.

We did not call for pledges of a fixed numerical market share for U.S. industry in this sector. But we do have a step-by-step plan of action associated with specific and measurable actions by the Government of Japan and the Japanese commercial entities involved. This agreement validates the results-oriented approach we are pursuing under the Framework. It demonstrates that the U.S. and Japanese Government can work together to achieve tangible results in terms of increased market access in Japan. It highlights the work we have yet to do in other sectors.

Another long-standing dispute with Japan that was resolved recently involved foreign access to the Japanese public sector construction market. In that case, I had determined under Title VII of the 1988 Trade Act that Japan was discriminating against U.S. firms in its public works procurement. However, in January, based upon Japan's new action plan to reform its bidding procedures for public works and an exchange of letters between the two governments, I determined that sanctions were not necessary. Under the new agreement, Japan committed to make major improvements in its procurements of public works.

The new procedures, which Japan will begin to implement on April 1, 1994, will significantly expand access of U.S. and other foreign firms to one of the world's largest construction markets. In 1993, contracts in that sector exceeded \$300 billion. Under the existing U.S. - Japan Major Projects Arrangements, U.S. firms had limited access only to 36 public works projects in Japan. The U.S. and Japan will jointly monitor and assess the implementation of the Action Plan and resolve issues that arise under it

A cycle of ineffective, sometimes cosmetic, trade agreements, lay at the heart of the cellular telephone and construction issues, to name a few. This cycle serves to defer rather than resolve our bilateral trade problems, and it is both frustrating and potentially damaging to our overall relationship with Japan. We have signed over 30 trade agreements with Japan since 1980, and despite that we have had to come back to the negotiating table again and again, often in a sector in which we already have an operative agreement. I do not mean to say that every one of these 30 plus agreements has been completely unsuccessful. We can point to some clear successes, such as the Semiconductor Arrangement, although we have some concerns over this sector that I will go into later in my testimony. While the Japanese are anxious to downplay the effectiveness of this agreement for reasons of their own, the Arrangement did lead to the achievement of a 20 percent foreign market share by the end of 1992, and to close and productive ties between the U.S. and Japanese industries which make both sides stronger and more competitive. We could also point to agreements in, third party radio, and satellite sectors as success stories.

Still, when we look at the body of past trade agreements, it is too easy to come up with examples where the results of a given agreement have not translated into the expected gains in the market. For example, in the glass sector, Japan made commitments in 1992 under the Global Partnership Plan of Action aimed at increasing the foreign share of Japan's consumption of flat glass. In 1991, the foreign share of this market was about 5.1 percent. By the end of 1993, this share had fallen to about 3.5 percent. We also have a 1992 agreement calling for an increase in market access for foreign firms to Japan's 32 billion dollar market for primary paper and paperboard products. In 1991, prior to the agreement, foreign share of this lucrative market was only 3.7 percent. As of 1993, this share held stagnant at about 4 percent. We also have ongoing concerns as to the way Japan is implementing several other agreements, including those covering wood, supercomputers and amorphous metals, to name a few.

Some agreements show mixed results. For example, under the 1992 computer agreement, the Japanese Government committed to expand procurements of competitive foreign computer products and services in Japan. The data we reviewed with the Japanese Government in December of last year showed that although quasi-governmental entities in Japan increased their purchases of foreign computer products from 9.2 percent in 1991 to 25.4 percent in 1992, foreign computer companies' share of the Japanese national government market had decreased over the same period from 4 percent to 3.7 percent. We are particularly concerned with this development given that the national government is the largest and only rapidly growing segment of the Japanese computer products market. The thrust of our future efforts to ensure full implementation of this agreement will center on further efforts by the Japanese Government to open this important segment of the market.

You even have to look at the success stories with some care. For example, in the wake of our 1988 agreement on beef, imports have risen to about 40 percent of consumption. But there is still a tariff of 50 percent, which will gradually be reduced to 38.5 percent, by the year 2000, six years from now. It took us decades of negotiation to reach the beef agreement. We had an accord in 1979 which was supposed to resolve this issue once and for all. Thus, from a broader perspective, even this admittedly successful agreement cannot be given full marks.

As I said before, the Semiconductor Arrangement is also one of our success stories, but we need to remember the difficulties experienced in the implementation of this agreement and the that the improved market access promised in the agreement has been achieved only with great effort. After finally achieving a 20 percent market share in the fourth quarter of 1992, we have seen three quarters of consecutive decline. Our concern with this downward trend led us to request emergency negotiations with

Japan, which were held on January 19. We were extremely disappointed with the outcome of these talks. Japan initially refused to acknowledge the seriousness of the market access situation. Furthermore, they were unwilling to commit to concrete actions to improve the situation. The market share for the fourth quarter of 1993 is currently being calculated. We believe that greater efforts are being pursued and are needed to achieve fully the market access objectives of the agreement. In the coming consultations with Japan, we will be pressing for their commitment to a stronger, more effective plan of action to ensure that these objectives are achieved.

Let me assure you that we will continue to monitor closely implementation of the Arrangement and to impress upon the Japan the need to achieve the "steady and gradual" improvement in market access as provided for in the Arrangement.

This need for constant follow-up and re-negotiation, even in the case of "successful" agreements, is one reason why we placed the entire existing body of trade agreements with Japan in the Framework under the Implementation basket for monitoring and to ensure compliance. And it is the major reason we seek results orientation and the use of objective criteria for evaluation under new agreements arising from the Framework. We hope to break this cycle of frustration and reduce the ambiguity and the confusion that have troubled the bilateral economic relationship.

This is where we stand at present in our trade relationship with Japan. It is appropriate that I give you some idea of where I think we are headed from this point. Parts of the media have trotted out the military lexicon and predicted that we are about to enter a trade war with Japan. This is not going to happen. Our ability to resolve the cellular telephone issue demonstrates that both Washington and Tokyo can work together to settle potential trade disputes in accordance with the Framework principles. The leadership in both Washington and Tokyo have a keen appreciation for the overall importance of our relationship. Our security relationship, as well as our ability to cooperate on many global issues, is strong. But our trade and economic relationship, a key priority of the Clinton Administration, is in serious disrepair. This Administration's approach to Japan will be deliberate and responsible.

While we have not yet resumed discussions under the Framework, we continue to monitor closely our existing agreements with Japan, and to be alert for new areas of possible concern. One such troubling issue, which we are following closely, is the review now underway in Japan on the decompilation of computer software. Specifically, the Agency for Cultural Affairs is undertaking a review which could lead to the weakening of copyright protection now granted software in Japan, a development which would seriously harm U.S. interests and put Japan out of

step with international practice. The Administration has made it clear to Japan that we would view such a development with the gravest of concern.

We believe that the Japanese are assessing their position. We hope that they will take seriously their responsibility to spur global growth through trade. Partnership implies shared responsibility. Recently, Japan has missed a number of opportunities to show a real interest in such a role; in the Framework, in the Uruguay Round market access negotiations, and in the lackluster efforts at unilateral deregulation embodied in the weak final report of the once promising Hiraiwa Commission. To fulfill this role, Japan will have to be dramatically more forthcoming if we are to return to the negotiating table than they have been to date. For our part, we anticipate working closely with Congress as we pursue the goal of ensuring that Japan's markets are open to competitive U.S. and foreign goods and services.

Chairman GIBBONS. Thank you, Mr. Ambassador.

I am glad to hear you say publicly what you said about managed trade. I have always understood your position, and the administration's position, to be opposed to Japan's continued efforts to manage trade.

It seems to me, though, that we have to rely on some kind of objective criteria by which to measure progress toward opening the Japanese market, and the use of such criteria has been seized upon by those who oppose opening markets as an attempt by the United States to manage trade.

It is my understanding, that most of our agreements with Japan in the past have not been aimed toward seeking market share, only for American companies but toward pushing the Japanese to open their market to all foreign competition. In other words, the United States has been negotiating with Japan on what I would call an MFN basis. The concessions or the market openings that we obtain are not just available to American firms, but to other non-Japanese companies, as well.

Am I correct in my understanding?

Ambassador KANTOR. Absolutely, Mr. Chairman. We have negotiated the Framework agreement on the basis of opening the Japanese market to all foreign competitive products, not just for products made in the United States.

One of the greatest misconceptions that has arisen is that this was strictly a bilateral negotiation in the sense of its effect. Its effect, of course, would be to open Japanese markets to all products of all countries in particular sectors we were dealing with.

If I might just make one observation about so-called managed trade in this Administration, which is interesting in terms of the Japanese point, it was this Administration led by this President that reengaged the Uruguay round and made sure it was successful in its conclusion. It was this President who made sure that the NAFTA and the supplemental agreements were adopted by the Congress of the United States in order to grow our markets here and create the largest single market in the world.

It was this President who made sure an APEC meeting in Seattle began to open up new opportunities and potential for not only our country, but others in terms of our Pacific trade. In every way and in every fashion, rhetorically or through actions on the part of this Administration, the President has made it clear that his goal is to open markets and expand trade, not to do the opposite.

And so any indication for anyone that this Administration is trying to manage trade simply flies in the face of the facts.

Chairman GIBBONS. Well, Mr. Ambassador, I am going to take the prerogative of a chairman and venture slightly away from the subject matter this morning.

But I am concerned. I have seen statements that people are cautioning against the implementation of the Uruguay round agreement this year because of concerns about paying for the implementing bill.

The Uruguay round—as every economist has projected will generate revenue for the United States that far outweighs any resulting reductions, and despite this, are insisting that we cannot implement the Uruguay round agreement this year because the budget

is so tight. I cannot see that the budget situation is ever going to be, in any way, anything but tight.

It therefore, seems to me that if we want to produce jobs in the United States, and if we want to produce economic growth in the United States, we ought to get this agreement ratified as quickly as possible.

What is your view on that?

Ambassador KANTOR. First of all, it is in the best interest of our country that the round be ratified this year.

One, the sooner the World Trade Organization goes into effect, the sooner we will be able to derive the benefits which are in the best interests of American business and American workers. This is an agreement that almost without exception totally—is totally consistent with the interests of our country and supports those areas where we are the most competitive. That is number one.

Number two, it would be of some concern internationally if the United States did not ratify the round this year, therefore delayed the implementation of it.

It is not certain whether or not Japan will ratify the round this year. They had a technical and procedural problem with their Diet.

However, I would hope that the United States would not be in the position of being criticized internationally because we held up the implementation of the World Trade Organization. I believe that would be unfortunate.

Number three, I agree with you, we are not going to face any less difficult a situation in the future than we will this year. Administrator Panetta of the OMB, your former colleague, is working very hard to find offsets that will meet the \$13.9 billion requirement over 5 years, which is a result of tariff cuts, called for under the round.

Let me support what you have just said, if I might, Mr. Chairman, because what you said is so important.

The tariff reductions under the round are a tax cut to the American people. They will make goods and services much cheaper than they are today, competitive goods and services, not only from foreign countries, but U.S. goods as well because of the increased competition. That is good for everyone.

Number two, every study that has been done so far indicates that we will receive about \$3 in increased Federal revenues in our treasury for every \$1 of tariff cuts, which means over the course of 5 years, we will receive about \$40 billion more in Federal revenues directly as a result of the Uruguay round in increased economic activity versus the \$13.9 billion that represents the tariff cuts. That, of course, is a net of about \$26 billion into the Federal Treasury.

But as you are better aware of in this committee than I am, under the so-called pay-go system and a static budget concept, we cannot count that.

I would hope that we could work with—and we will—both sides of the aisle, both houses of Congress, in order to try to come to some conclusion or offsets or other means to make sure that the round is put into effect this year.

Chairman GIBBONS. Well, thank you. Those are wise words.

Mr. Ambassador, I am going to have to excuse myself and turn the chair over to Mr. Matsui. I want to commend you and your negotiating team for your excellent work with Japan. I do not believe you are headed toward managed trade. I believe that you are merely trying to open the Japanese market so legitimately competitive firms can garner their fair share of the commercial opportunity in Japan.

Keep up the pressure and the good work. I wholeheartedly support you.

Ambassador KANTOR. Thank you very much.

Let me just say that Ambassador Barshefsky, working with Ambassador Mondale, have done more than just an outstanding job. We all owe them a very great debt of gratitude for what they have accomplished thus far.

Chairman GIBBONS. I agree with you.

Mr. MATSUI [presiding]. Thank you, Mr. Chairman.

I would like to also welcome both you, Ambassador Kantor and you, Ambassador Barshefsky. I would like to congratulate both of you on the work that you did on the cellular agreement with Motorola. I think it was the kind of agreement that we hope to be able to see with the Japanese in the future. I think you and Mr. Gibbons aptly described it.

I would like to just ask two areas of questions. First, the Japanese companies have been talking about voluntary benchmarks in the auto industry. This would not be a government-mandate, but instead private sector voluntary understandings.

I have a problem with the fact that this would be a private sector initiative rather than a government-to-government agreement, because there would be very little way to monitoring it.

Could you comment on this and also perhaps discuss any pertinent details. Some press stories seem to indicate that this is a step forward, but I do not know what the details are, so it is hard to really ascertain whether this is, in fact, a step forward.

Ambassador KANTOR. Thank you, Mr. Chairman. I appreciate your kind remarks.

We, of course, have read the same press stories you have read. We are aware that our companies have preliminarily contacted by Japanese industry.

However, we are not aware of what is being suggested, what it would cover, how much, and how it would be implemented.

Second, we are also unaware of what involvement the Japanese Government would or would not have in this so-called, "voluntary arrangement."

Third, we share your concern that a voluntary arrangement between the industries would not address some of the influence, as well as the barriers that have been implemented by the Japanese Government and carried out by the Japan Government, which have had a negative effect on our ability to sell both auto parts and automobiles in Japan or auto parts here in this country to Japanese so-called transplant companies.

We have made progress in some areas of auto parts, as you know, especially selling auto parts to Japanese transplant companies. A number of their auto parts companies have located in the United States, are employing U.S. workers, and we should welcome

and applaud that. They obviously are producing more and more automobiles here in this country using U.S. workers in plants all over the country, and we should applaud that as well. It is good for our economy. It is good for our workers. It creates high-skill, high-wage jobs.

However, along with other foreign competitive products, we have literally been locked out of the auto parts market in Japan. Foreign competitive auto parts have about 2 percent of the market in Japan, a \$100 billion a year market. That is so low as to be almost nonexistent. It does not compare in any way to the open markets of Europe or the United States in terms of auto parts. In terms of autos themselves, the United States has seven-tenths of 1 percent of the Japanese automobile market; whereas, the Japanese automobiles, as you know, have about 25 percent of our market, a share that has gone down given the new competitiveness of U.S. companies.

We believe that it is critical that the arrangements we reach with Japan be under the framework, auto and auto parts be a significant part of that, and that it be a government-to-government arrangement, exactly as we did in terms of approach in the cellular telephone situation. Although the contracts and the activities will be carried out by private companies in the cellular telephone agreement, the guarantees as to performance are the obligations of both governments. I believe that is critical if we are going to make real progress in these areas.

Mr. MATSUI. Thank you. In terms of the GATT discussions, last December I believe there were further negotiations with the Japanese after the GATT discussions were formally concluded concerning zero-to-zero tariff reductions on items such as distilled spirits, aluminum, some industrial products, and wood products.

It is my understanding that the Japanese have not been forthcoming in these discussions. I disagree with Mr. Sutherland who was suggesting that we are bound by some of the tariff reductions that we made contingent upon completing an agreement with the Japanese in these areas.

Perhaps you might touch on this if it is appropriate to discuss at this hearing.

Ambassador KANTOR. Number one, it was made clear in the documents that were initialed on December 15, 1993, which completed negotiations in the Uruguay round—finally, after years of frustration and blood, sweat, and tears—that the U.S. offer was conditional, the U.S. offer to Japan was conditional on the Japanese being as forthcoming as possible with wood, with metals such as copper and aluminum, as you indicated, but copper being the major one; in the so-called white spirits area—that is vodka, gin—and also that they would also reduce tariffs on shoes and some leather products.

Frankly, the Japanese, although they did make significant cuts for 5 years in, say, wood products, 50 percent cuts as everyone had agreed to, we had all agreed to go to 100 percent or zero tariffs by the end of 10 years. The Japanese said they will only review it after 5 years and would not make any commitment beyond 5 years.

They have not moved in that area. Even though we did offer a compromise about 5 weeks ago to them in this regard, it was not

accepted. In the other areas, they have not moved at all except to say, for instance, in copper, they have reduced significantly their tariffs in that area, but not as much as we would like them to move. We wanted to go to zero tariffs in copper as well.

So we did condition our offer, and we did identify the sectors, and we have had subsequent negotiations. And Mr. Sutherland is quite aware of our conditional offer. As a result of that, we did reduce somewhat our offer to Japan in the Uruguay round, although we made sure we picked areas and products which did not have an adverse effect upon other of our trading partners who, in fact, took their responsibility under the Uruguay round in a full and complete fashion.

Mr. MATSUI. Good. Thank you. I will conclude and ask other colleagues to comment. But before I do, I would also like to reiterate what Mr. Gibbons has said, and I believe what you have said, that what we are seeking are benchmarks. We are not seeking managed trade. I think there has been some effort by the Japanese to mischaracterize this issue. We are not asking for an annual reduction in the trade imbalance, we are asking for opportunities. I think Ambassador Barshefsky clearly articulated this some months ago when she said we are not asking the Japanese to buy 10,000 U.S. cars a year; we are asking them to provide dealerships that will sell our U.S. cars and to let the Japanese consumers ultimately make their purchasing decisions. This is an issue of their opening up their markets.

There should be no misunderstanding that we in the Congress and others in the private sector are serious about this. The misleading statements coming from Japan by their journalists and by their elected officials will not recharacterize the understanding of almost all my colleagues in the House of Representatives and the Senate. We are 100 percent behind your efforts, and we will support whatever efforts you may need in order to achieve your goals.

With that, I would like to now call on Mr. Payne from Virginia.

Ambassador KANTOR. Thank you, Mr. Matsui. If I just might, I know all of you have more experience in this than I, but it is interesting. Here is a country that for over 4 decades has really implored the rest of the world and has led opening markets and expanding trade, whether it is the Kennedy round or the Tokyo round or this President reengaging the Uruguay round, on a bipartisan basis, not on a partisan basis, because it is so important for growth, so important to jobs here as well as around the world. We, in fact, allowed the Japanese and the European unions after the Second World War to protect their infant industries and to use our markets to build industries as a bulwark, frankly, in Soviet expansionism. It was a good policy, and it worked. It was part of containment. It made sense at the time.

But that is no longer the case. We have a tripolar economic world. We have three great economic powers, and growing powers, frankly, on a multipolar basis all around the world. And we all now need to take responsibility.

Mr. MATSUI. Thank you.

Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman. I, too, want to welcome Ambassador Kantor and Ambassador Barshefsky here,

and thank you very much for being here with us today and testifying before this subcommittee.

I also would like to compliment you on the conclusion of the cellular telephone agreement, and particularly that portion of it that deals with quantitative indicators, because like my colleagues have already pointed out, I think that is not a device for managed trade but, rather, it is a device for fair competition. And it is the only way in this instance that I think we will be able to have fair competition.

You, Mr. Ambassador, and the USTR and the administration deserve a great deal of credit for moving our trade relationship with Japan in what I consider to be a very positive direction. This is a direction where we honestly look at a very important issue around the globe, but particularly in Japan, and that is the issue of market access and how can we have fair market access.

I think the insistence that you have demonstrated that the Japanese Government make good on its existing commitments to eliminate trade barriers is an important part of our bilateral discussions.

In my own congressional district, there are a lot of jobs in areas that are very much affected by the lack of market access in Japan—the wood products area which you have just spoken about, the flat glass area—and these are ones where, in spite of agreements, the quantitative indicators, if we look at market share, would suggest that we are not making progress, and in some cases we may be even losing market share. The flat glass industry, which is successful around the globe and has large shares of markets in various countries, in Japan we continue, in spite of an agreement to do better, we still have less than 1 percent of the market share in Japan. That is a product that is demonstrated to be competitive, in terms of the price, in terms of its quality, around the globe.

So my question, particularly as it relates to the flat glass industry, is: How do you evaluate our ability to deal with existing relationships and existing agreements in order to ensure that there is compliance with these?

Ambassador KANTOR. On of the reasons the President reauthorized or reinstated the super 301, which he had supported since a speech in, frankly, November 1991 when he was still Governor of Arkansas and just had become a candidate for President, was designed to address just this problem. Flat glass is a perfect example. We reached agreement in 1992 under the Global Partnership Plan with Japan to increase foreign competitive sales of flat glass in Japan.

As you know, for years that industry was dominated by three Japanese companies who, strangely enough, have had exactly the same percentage of the market for years, 50 percent, 30 percent, and 20 percent. The Japanese Fair Trade Commission recently found that that was a cartel, and they were literally joining together to keep foreign competitive products out of Japan but yet did nothing about it, although that was their finding.

As a result of this agreement, our foreign competitive products percentage of flat glass sales in Japan did not go up, did not stay the same; they actually went down. That has got to cause alarm bells to go off in anyone's head, and it certainly has gone off in the

collective head of this administration. And we are deeply concerned about it.

We believe that everyone should live up to their trade agreements, including the United States. We believe in this case there is reason for concern.

Obviously we will publish our NTE, our National Trade Estimates report, at the end of this month. We are currently in the process of completing it. I think it would be unfortunate if I indicated today, since we have an obligation to the Congress to publish that report on the 31st, what it will conclude in this area. However, I think it would suffice to say that we are deeply concerned that this agreement has not worked in the way that it was expected to work, and we are focused on this industry quite closely.

Mr. PAYNE. Mr. Ambassador, thank you for those comments, and like my colleagues before and their expressions of support for the policies that you are pursuing, certainly I intend with other members of the subcommittee to support these efforts to ensure compliance with existing trade laws as well as to ensure market access for our products around the globe. Thank you very much.

Ambassador KANTOR. Thank you, sir.

Mr. MATSUI. Mr. Hoagland.

Mr. HOAGLAND. I just have two questions, Mr. Ambassador. Let me ask you first, in your view, what is it going to take to get the message across to the Japanese that we are very serious in these matters and that there are many millions of Americans who feel that we have been taken advantage of by the Japanese for many, many years in our trade relations and that we are simply not going to allow this to continue?

Ambassador KANTOR. First of all, I think the message is getting across. I think the reaction to the cellular telephone agreement, although not directly related to the framework talks and our lack of success in convincing the Japanese to live up to their obligations, was related to our overall approach. We also have seen reports that the Japanese are developing, as I indicated to the chairman, an approach to market opening. We do not know if that is going to be consistent or not with our framework agreement. We have not, obviously, seen the package.

In addition, we have seen other evidence, including what Mr. Matsui referred to, of the Japanese industry and/or Government beginning to understand that this administration, this Congress, the American people, American business, American labor, all stand together in a common purpose to open Japan's markets.

Frankly, nothing could be better for the Japanese people. It should not escape anyone's attention that they have a lower standard of living than many industrialized nations, yet they are the second highest paid workers in the world. Costs or expenses in Japan are very high. The reason is there is little competition in key sectors.

If they open their markets to foreign competitive products, that would lower the price of goods, raise their standard of living, and, frankly, I believe their companies would be even more competitive and innovative. I think that would be in the best interest of not only our country and other countries, but also in their interest as well.

Mr. HOAGLAND. Well, let me underscore, if I might, that there is strong bipartisan support here in the Congress for the policies that you and the administration are pursuing, and I want to compliment you on those and urge you to be as aggressive as you feel we need to be at any given time.

Let me ask you as a second question if you might briefly describe for us the differences between the super 301 authority and procedures provided for in the March 3rd Executive order and the super 301 authority and procedure provided for in the Omnibus Trade and Competitiveness Act of 1988.

Ambassador KANTOR. If there is a difference, it comes in the area of some discretion. We built into an Executive order, which probably would not be a surprise to the Congress when the Executive is implementing a measure on their own, some discretion if we either are in trade negotiations, have a trade agreement in force, or in another areas. In other words, we tried to make it somewhat flexible. Even though super 301 is automatic on or before September 30, we must identify priority foreign country practices. In order to make sure we are making progress in an agreement or trade negotiations, the President, through the United States Trade Representative, can make a decision not to go forward with an automatic investigation under 301.

We believe that made sense under the circumstances. We think super 301 worked in 1989 and 1990 very well. In Japan and Korea, Taiwan, with others, either formally or informally, it was very effective in opening markets. But on the other hand, we also believe that a little bit of flexibility was important to have. In addition, of course, as was in the 1988 act, we had a sunset of 2 years. That will allow us to review what has happened and make a determination whether or not it has been effective.

Mr. HOAGLAND. Well, thank you for appearing today and for your comments today.

Ambassador KANTOR. Thank you very much, Mr. Hoagland. I appreciate it.

Mr. HOAGLAND. Thank you, Mr. Chairman.

Mr. MATSUI. Thank you, Mr. Hoagland.

Mr. Kopetski.

Mr. KOPETSKI. Thank you, Mr. Chairman.

Welcome, Ambassador Kantor. I, too, want to commend the administration for their work that you have done, and you especially in your team at USTR in terms of negotiating agreements and also being tough in making sure that these agreements are in force. I think it is a new era for the United States in the world economy.

One issue that is important, that is of growing importance to States such as my own, in Oregon where we have a very creative and successful software industry, is the issue of reverse engineering. Could you comment on where this matter stands with respect to the Japanese?

Ambassador KANTOR. That is a so-called decompilation question. There have been proposed in the recent past regulations which would allow the Japanese to engage in reverse engineering. Obviously it is a practice under this proposed regulation which we would oppose vigorously.

I would report to you today that there has been some indication that the Japanese may not pursue this policy. We believe that the implementation of regulations allowing decompilation or reverse engineering would not only be harmful to U.S. businesses and to our competitiveness, but would not be sustainable by the Japanese, and we would react very vigorously to such a move by their government.

Mr. KOPETSKI. I appreciate those comments and your commitment to this issue.

The second area that I wanted to question about this morning is one that Mr. Matsui and I care very deeply about, and that is sort of the remaining fourth of the world trade area—China—and the fact that probably those that are in China, our competitors who are in China today have a bit of a smug smile on their face in terms of what has occurred this past week. And for those that care very much about human rights, taking the tack of conditioning MFN to human rights issues, we can see that the opposite can occur and does occur with the increased duress of dissidents that has occurred because the Chinese approach is much different than a Western approach.

Is it as much a disaster as we think, after watching the news and reading the paper over the past 3 or 4 days? Is there any hope out there that we can get to where we ought to be, and that is, renewing MFN with China later this spring?

Ambassador KANTOR. One, it is not a disaster. Number two, there has been no change in our policy, but Secretary Christopher delivered a very strong and I think appropriate message at the highest level of the Chinese Government, and that is that we must make progress in this area, as the President clearly indicated in his order in June of 1993.

As you know, there were seven different criteria—two mandatory, five where we had to make significant progress. We are thoroughly engaged on this subject with the Chinese as a result of the Secretary of State's trip. We narrowed our differences somewhat, which has been reported by the Secretary of State, and I believe we are moving in the right direction.

I believe that the reports out of China did not characterize the successes that the Secretary had there, and I am fully confident that we can resolve this issue in a way that is consistent with both making progress on human rights but continuing to be engaged with the Chinese in terms of trade, not just because it provides a great economic opportunity to us. It does. But also because full and complete engagement will make a big difference in terms of how the Chinese operate internally with their own people.

This administration is united in our approach to this problem, and I would hasten to say that I believe that Secretary Christopher not only delivered the right message and a strong message, but it was at the appropriate time and to the appropriate people.

In the area of trade, we are making some progress with China, as you know, Mr. Kopetski, and we have a 1992 memorandum of understanding with regard to market access of industrial and agricultural products, where in the industrial area on about 450 products both import restrictions and quota restrictions have been lifted, some ahead of time, which is good news. In the agricultural

area, we have not been quite as successful. There is still sanitary and so-called phytosanitary rules which we believe are unfair and are not warranted under the circumstances, are not based on proper standards that need to be addressed.

We have had a disagreement with China on textiles as we negotiated a new bilateral treaty. As you know, we invoked sanctions, and 5 days later we were able to obtain an agreement through the good work of Ambassador Hillman of USTR that is, frankly, a historic step forward. The Chinese agreed, as a result of past practices with regard to circumvention and transshipments, to have zero growth in textiles and apparel this year in terms of exports to the United States and only 1 percent growth over the next 4 years. That is in sharp and direct contrast to the about 15 percent growth they have profited by over the last few years.

Second, we have made sure that there is strong anticircumvention language in this new bilateral treaty, textile and apparel treaty. And, third, for the first time, they have put a cap on the export of silk products to the United States.

All of that is in the best interest of our workers and our businesses and tries to deal with not only the circumvention or transshipment problem, but also the problem of overshipment. That is a problem where they would literally ship more than they were allowed. It would sit in warehouses. And, frankly, in past administrations, after a certain amount of time it was put out on the market.

We have changed policy in that area, and when there are overshipments which exceed the quotas, those goods are going to remain locked up. We are not going to allow them into the market and violate the U.S. laws and restrictions.

Mr. KOPETSKI. I appreciate your taking a few minutes out of the subject matter at hand. I am glad to hear that things are a little more optimistic than what the media has portrayed. I did read one account that said that the administration is continuing to consider maybe looking at some other place and forum, a tough area to deal with, the human rights issues, as we should, rather than the annual review process of the MFN renewal.

Thank you.

Ambassador KANTOR. I know it is always shocking to you and to me that sometimes media reports do not exactly track with the administration's view of a subject. It is always shocking to someone from Los Angeles, but now that I have arrived here, I guess I will get used to it.

Mr. KOPETSKI. I do not think you should ever get used to it. Don't get comfortable with the press.

Mr. MATSUI. Thank you, Mr. Kopetski.

I have one final question regarding the semiconductor agreement of 1991 with the Japanese. As you know, last year, through your efforts, the Japanese agreed to a 20 percent criteria which was also included in the 1991 agreement. That was a different kind of agreement than those that you are seeking at this time.

Could you comment on the progress that is being made? I know that there are still some efforts to get that number up again. Do you think we will reach 20 percent like we did in 1993, for this coming year?



Ambassador KANTOR. We will have meetings this week with the Japanese which are called for under the agreement in order to determine what the percentage of foreign semiconductor penetration in the Japanese market reached in the fourth quarter of 1993. We are hoping, of course, that that percentage has gone up from the 18 percent, approximately, or 18.1 that was the percentage at the end of the third quarter.

As you know, at the end of the fourth quarter of 1992, the percentage was over 20 percent, which reached the Japanese commitment. We were supposed to have, according to the agreement, steady and gradual growth. The 20 percent was never supposed to be a ceiling. It was supposed to be an expected or a commitment on the part of Japan. By the end of, frankly, 1991, it was extended to 1992, and then there was supposed to be steady and gradual growth from there. Frankly, we have been disappointed, as you know, by the reduction in that 20 percent as of December 31, 1992, and three straight quarters in 1993. However, we are hopeful that that percentage has gone up in the fourth quarter of 1993.

We asked for emergency consultations with the Japanese as a result of the three-quarters reduction in the percentage. We did not find the Japanese as cooperative as we would have liked. However, I am not going to prejudge what happened in the fourth quarter. We are hoping that there has been improvement. We will make that announcement either late this week or early next week.

Mr. MATSUI. Thank you. I find this very of interesting because if we do not see steady market growth and they keep the number right around 18 to 20 percent each year or each quarter, it would really indicate that they do engage in managed trade themselves. It would seem to me that once they begin using our products, they will find them to be of some value.

I appreciate the testimony that you have both offered today and the fact that you have kept the subcommittee informed. Obviously, as you have stated, bilateral relations between the United States and Japan is one of the most important issues. We look forward to continuing this dialog.

Thank you very much.

Ambassador KANTOR. Thank you, Mr. Chairman, very much.

Mr. MATSUI. The meeting stands adjourned.

[Whereupon, at 11 a.m., the hearing was adjourned.]

[Question's submitted by Mr. Neal and response from the Office of the United States Trade Representative follow:]

RICHARD E. NEAL
SECOND DISTRICT, MASSACHUSETTS

WHIP AT-LARGE



COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE
SUBCOMMITTEE ON SELECT REVENUE MEASURES

Congress of the United States
House of Representatives
Washington, DC 20515

Questions by Mr. Neal for Ambassador Kantor

March 15, 1994 Hearing on United States-Japan Trade Relations

First, I would like to commend you and the work USTR has done with dealing and attempting to reach a trade agreement with Japan. After the failed talks that took place in Washington, D.C., what are the next steps for USTR? How do you see the framework agreement progressing? Has the Administration changed its goals or timetable for a U.S.-Japan trade agreement?

In Webster, Massachusetts, there is a plant that makes flat glass and the plant employees about 150 workers. The specific product this plant makes is the safety glass for sliding glass doors. This product is a superior product to the product being sold to Japan. However, the Japanese market is closed to this product. Flat glass was included in the framework agreement. The American share of Japan's flat glass market remains less than 1 percent. Do you think there is a chance for resolution on the issue of flat glass? Will future negotiations be initiated to terminate unfair trade barriers on the United States flat glass manufacturers?

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QUESTION BY MR. NEAL

Q. First, I would like to commend you and the work USTR has done with dealing and attempting to reach a trade agreement with Japan. After the failed talks that took place in Washington, D.C., what are the next steps for USTR? How do you see the framework agreement progressing? Has the Administration changed its goals for a U.S. - Japan [glass] trade agreement?

A. The Administration has not changed its goal of reaching an agreement with the Government of Japan to open the glass market in Japan to foreign competition. We believe that the Japanese market remains virtually closed to imports of foreign glass despite the fact that foreign glass enjoys a significant price advantage over Japanese glass.

At this point, it is difficult to be precise about specific plans for next steps with Japan aimed at addressing this problem. The situation around the succession to Prime Minister Hosokawa is far from clear. We must resolve some basic disagreements with Japan over how to measure progress. It does not seem to us to be worthwhile to negotiate new agreements unless we can be sure that there will later be the means within each agreement to measure what progress is being made.

The glass trade situation with Japan is under active review, and you can be sure that we will pursue the case in an effective manner.

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